



Douglas County Internal Audit

August 21, 2013

Douglas County Board of Commissioners
1819 Farnam Street, Suite LC2
Omaha, NE 68183

Attention: Mary Ann Borgeson, Mike Boyle, Clare Duda, Marc Kraft, PJ Morgan,
Chris Rodgers and Pam Tusa

Joe Lorenz, Director of Finance and Budget
1819 Farnam St, Suite LC2
Omaha, NE 68183

Mark Conrey, 911 Chief of Communications
911 Emergency Call Center
3603 No. 156th St.
Omaha, NE 68116

Dear Commissioners, Mr. Lorenz and Mr. Conrey:

I have completed an audit of the 911 surcharge fees related to end-user landlines within Douglas County. The purpose of the audit was to determine that Douglas County received all of the surcharge fees it was due. The audit revealed that one service provider did not collect all of the surcharge fees owed Douglas County due to an error in their monthly billing program. Additionally, an opportunity to improve control was identified and appears below.

Background

The Nebraska State statute §86-435 gives Douglas County authority to levy a “uniform service surcharge of up to fifty cents per month on each telephone number or functional equivalent of service users”. Statute §86-436 limits the surcharge to one hundred telephone numbers or functional equivalents. The providers must remit the amounts collected no later than 60 days after the end of a calendar quarter. Statute §86-437 requires the provider to keep the records related to the remittances for one year. The statute also requires the suppliers to report by April 30th to the Nebraska Public Service Commission (NPSC) the surcharge amounts collected and remitted for the prior calendar year.

Douglas County receives over \$1.2 million of collected fees each year. The biggest providers, Cox Enterprises (Cox) and CenturyLink, represent 90% of the surcharge fee revenues. The service providers of the landlines to which the above statutes apply self-report the amounts due to the County. An audit was conducted to obtain an independent determination that the County was receiving all the revenue to which it was entitled.

Objective

The purpose of the audit was to determine that Douglas County is receiving all of the surcharge fees it is due. The audit was also conducted to determine if Douglas County has procedures to obtain reasonable assurance that the amounts received are complete and accurate.

Scope

The scope of the audit included an examination of the fees collected for 2010 through 2012. There was a more detailed examination of 2012 billing data from the two major providers, Cox and CenturyLink.

Methodology

The information documented by Internal Audit was obtained through interviews and meetings with service provider representatives, the Douglas County Attorney, NPSC and 911 Communications personnel. Additionally, reports were obtained from the Nebraska Legislative website and billing data for 2012 from the service providers. The audit evaluated the process used by the County to track the providers' monthly and quarterly payments to see if the amounts were reasonable. There was additional testing of payments which included but was not limited to the steps below:

- Compare amounts collected per the surcharge tracking spreadsheet to the amounts reported per the two latest NPSC reports to the legislature. Investigate differences greater than \$5,000.
- Review the receipt dates per the payment tracking spreadsheet and determine if the fees were received within 60 days according to state statute.
- Compare the amounts collected in the spreadsheet to the amounts posted in Oracle to see if they were the same. Investigate significant differences.
- Select the vendors that make up 80% of the revenue collected by Douglas County. Obtain data files that corroborate the payments made to Douglas County for 2012, and determine if Douglas County is being paid all the surcharge fees it is due.

The issues identified appear in the Findings section below:

Findings

Insufficient Payments

Criteria: Amounts paid to the county for 911 surcharge fees should be based upon the actual number of end-users lines limited to 100 lines and appropriate exemptions.

Condition: A programming error resulted in Cox not billing customers the appropriate surcharge amount depending upon the types of services delivered by Cox.

Effect: Douglas County received \$174,600 less than it should have for the period January 2012 through February 2013.

Note: Cox has subsequently submitted a \$174,600 payment to the County.

Cause: The programming error went unnoticed by Cox.

Recommendation: Periodically conduct an audit to ascertain that the amounts received are complete and accurate based upon the number of end-user landlines.

Management Response: County Financial Administration agrees with the recommendation to periodically (every two to three years) have an audit performed to ascertain that the amounts collected from the phone companies are accurate and represent full payment based on the number of end-user landlines.

Payment Tracking

Criteria: Management should have a process in place to determine that amounts collected are recorded completely and accurately, including providing for adequate segregation of duties.

Condition: The NPSC Annual Report on Telecommunications is published seven months after the final payments are due from service providers. The audit revealed that the surcharge fee amounts reported did not always agree to the actual payments submitted to the County or to the service provider's own records. This was the first year management had used the report to compare actual payments to reported collections. Additionally, due to the self-reporting nature of the collection and remittance of the fees, there is no receivable that directly relates to the amounts that should be submitted for payment.

Effect: The NPSC report cannot be relied upon to accurately reflect all of the surcharge fees actually collected and remitted to the County. Comparisons of amounts received to amounts reported may result in erroneous analysis. Additionally, any lost or misdirected remittances may not be detected in a timely manner.

Cause: Management did not provide for an independent corroboration of recorded surcharge fee remittances.

Recommendation: As suggested by the Director of Finance and Budget, if possible, require the service providers, (particularly the major providers) to send payments electronically to prevent receipts from being converted to personal use. If the providers will not or cannot send electronic payments, other controls should be considered. The 911 Communications Department records the surcharge fee remittances. To ensure an independent corroboration of the fees remitted, the County Administration's Finance personnel should confirm periodically with the service providers the surcharge fee amounts collected and remitted. Determine that this is the amount recorded in Oracle as well. Any differences should be investigated promptly.

Management Response: County Financial Administration is working in conjunction with the 911 Communications Department and the County Treasurer's Office to implement a process by which the great majority of 911 Surcharge proceeds are to be received electronically via ACH payments. If a material amount of these proceeds cannot be collected electronically, other financial control processes will have to be considered. There is agreement with the recommendation that County Financial Administration request the internal audit function to periodically (every two to three years) confirm with the phone companies that the fees they have remitted to the County track with the County's internal records for fee amounts received. This amount should be reconciled with the appropriate accounts in the Oracle financial records. Any material differences should try to be reconciled.

Audit Standards

Internal Audit conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

This report was reviewed with 911 Director, Mark Conrey, and Finance Director, Joe Lorenz. Internal Audit appreciates the excellent cooperation provided by the 911 Communications Department managers and staff. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki
Internal Audit Director

cc: Paul Tomoser
Trent Demulling
Joni Davis
Donald Stephens
Joe Lorenz
Thomas Cavanaugh
Kathleen Hall
Patrick Bloomingdale
Diane Carlson
Mark Rhine